The Renewal Alliance

REAL Life: An Opportunity Agenda for Urban America

It is clear from the range and complexity of problems plaguing the inner cities that capital development—social, human and economic—is the key to real, long-term renewal of urban communities. Our plan addresses this problem at three levels.

Community Renewal

Community activist Bob Woodson has said that there is no social problem in America today that is not being solved somewhere by someone. Our most intractable pathologies—drug addiction, teen pregnancy, homelessness, and youth violence—are each being conquered by community organizations most of us have never heard of, but whose expertise we cannot afford to ignore. William Schambra called these institutions "the emergency rooms of civil society." While government programs often send their clients through a revolving door of dysfunction, these private, faith-based efforts offer real help and hope for restoring individuals to productive lives. Pastor Freddie Garcia of San Antonio operates a drug treatment program that has an 80 percent success rate compared to the single-digit performance of government programs. An independent study of Big Brothers/Big Sisters found that among at-risk youth, adult mentoring cut first-time drug use by 46 percent, school absenteeism by 52 percent, and violent behavior by one-third.

Renewal Credit

- Voluntary, state-based charity tax credit.
- States permitted to use up to 50 percent of any existing federal welfare block grants to fund charity tax credits.
- Tax credit provided for contributions up to $250 ($500 for married couples) to 501(c)(3) charitable organizations, which work to prevent or reduce poverty.
- The credit would be phased in at $50 per year ($100 for married couples).

Charitable Donations Protection

- Prevents the recapture of tithes and monetary donations given more than one year before an individual files for bankruptcy.
- Protects a debtor's donations to churches and charities for up to 15 percent of annual gross income during the year the contribution is made.
- Protects up to 15 percent of debtor's gross income from creditors after bankruptcy filed.
- Preserves the right of individuals to tithe and give charitably while they repay their debts.

Charity Liability Reform

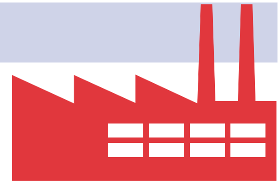
This initiative limits the civil liability of businesses and other entities that:

- Donate equipment.
- Allow charitable organizations to use their facilities for meeting space.
- Make motor vehicles or aircraft available to nonprofits.
- Offer facility tours.

We propose a package of reforms that will strengthen the churches, charities, and volunteer groups that bind communities together, and heal individual lives. We want to continue the work of the 1996 welfare reform by encouraging states to transfer more authority and resources to the private, religious, and non-profit groups through a state-based charity tax credit . The community empowerment initiative also builds on the 1997 Volunteer Protection Act by limiting the liability of businesses and other entities that provide equipment or facilities used by charitable organizations. Finally, we protect institutions from the over-zealous Internal Revenue Service agents who have in the past sought to recoup contributions from individuals who are going through bankruptcy proceedings.

For too long the government has treated America's civil society as, at best, a quaint reminder of a lost past and, more often, as an obstruction to government-led social progress. REAL Life seeks to put these civil society institutions and the people who lead them at the center of our effort to restore troubled neighborhoods and communities.

Economic Empowerment



The second part of REAL Life is targeted at restoring the shattered economic base of our inner cities. Economic growth provides a double benefit to communities. First and foremost are the jobs that yield income both to support families and nurture self-respect. But there is also a civil society dividend for urban neighborhoods that attract new businesses. In 1997, American Demographics published a study that found a strong relationship between the presence of healthy buisinesses and social stability. Entrepreneurs depend upon the social health of the neighborhoods where they operate and, therefore, support the network of religious, and volunteer groups that hold communities together. Further, the presence of locally owned and operated restaurants, barber shops, and stores provides "a place for the informal public life that embeds people in communities."

It is one of the great under-reported stories of America's booming economy that tight national labor markets are increasingly driving business to look to the inner cities for employees. In Wisconsin, Allen-Edmonds shoes moved a major facility from Port Washington to inner-city Milwaukee to take advantage of the untapped labor pool there. The city of Indianapolis is engaged in an aggressive program to bring businesses into poor neighborhoods by reducing taxes and regulation. Philadelphia, after decades of losing thousands of jobs each year to suburban locations, reported a 3,000 job increase in 1997 mostly because of efforts to make the city a more attractive place to do business.

REAL Life seeks to build on this trend by targeting the 100 poorest communities in the nation, and offering economic growth incentives. The legislation reduces to zero the capital gains tax for investments in troubled areas, increases small business expensing of plant and equipment purchases in the zones, and allows businesses in the zones to receive a 20 percent wage credit for hiring qualified, low-income workers. To qualify for these benefits, states and localities must agree to reduce local tax rates and fees within the renewal community, and waive local and state occupational licensing regulations. The proposal would also create Family Development Accounts that encourage

Renewal Communities Requirements

Poverty Criteria

- Must have a poverty rate of 20 percent or more
- The unemployment rate must be at least 150 percent of the national rate
- At least 70 percent of Renewal Community households must have incomes below 80 percent of the median household income.

Local Commitments

- Reduce local tax rates and fees within renewal zones
- Eliminate state and local sales taxes
- Waive local and state occupational licensing regulations, and other barriers to entry, except those explicitly needed to protect health and safety.

Renewal Community Benefits

- Capital Gains Tax Relief. Zero capitol gains rate for the sale of any qualified zone stock, business property, or partnership interest located within the qualified zones.
- Increased Expensing. Raises the maximum allowable expensing for purchase of plant and equipment in Renewal Communities from $25,000 to $35,000 in 2003.
- Wage Credit. 20 percent wage credit for hiring qualified, low-income workers who remain employed for at least six months.
- Family Development Accounts. Tax-favored accounts to help low-income families save a portion of their income or their EITC credit refund. Cash donations to an FDA are deductible, and withdrawals are tax-free for a qualified purpose.
- Brownfields Expansion. Environmental clean-up relief applies to Renewal Communities in addition to the Enterprise Zones, Empowerment Communities, Census poverty tracks, and EPA pilot projects.
- Renewal Community Homeownership. HUD-owned, unoccupied or substan dard homes and housing projects located within qualified zones to be sold to community development corporations for purchase by low-income families.
- Community Reinvestment Act (CRA) Credit. Allows financial institutions to receive their CRA credit for investments in, or loans to, other ventures with community development financial institutions located in Renewal Communities.

low-income families to save a portion of their income, or their Earned Income Tax Credit refund, to be matched by private contributions. These accounts would be available to purchase a home, pay educational expenses, or create a small business. We think this program is good business—and good social policy—because it acknowledges "self-help" and private investment as the first principles of effective compassion.

Educational Opportunities for Low-Income Families

The third part of our program is educational choice for low-income families. A recent survey on urban education by "Education Week" re-emphasized the alarming state of urban schools. Nationwide, just 43 percent of students attending urban schools met the most minimal standard for reading competency. In schools located in high poverty areas, more than two-thirds of the children could not read a simple child's book. This pattern held true in math and science as well.

Urban parents whose children are trapped in schools in which failure is virtually guaranteed are increasingly demanding real change, and real alternatives. Publicly- and privately-financed scholarship programs are now operating in over 30 cities. Last year, these programs raised over $30 million, and served 10,000 children. The demand for private school choice also continues to grow. In late 1997, the Washington Scholarship Fund in Washington, D.C., announced that it would offer 1,000 new scholarships. The Fund received 7,000 applications for these positions—more than 15 percent of the District's eligible population. In 1996, New York City's private scholarship program received more than 17,000 applications for 1,000 new slots.

Early studies of publicly- and privately-financed school choice programs demonstrate that there is good reason for parents of poor children to seek alternatives to the public school system. Studies of the Milwaukee and Cleveland public scholarship programs, by Harvard Professor Paul Peterson, show significant improvements in academic achievement for program participants—especially in math ability. Moreover, these studies also show a sharp increase in parental satisfaction with their children's learning environment.

REAL Life acknowledges these gains, and seeks to build upon them. First, this legislation calls for a large-scale test of publicly-funded scholarships for poor children. In the short term, we believe these scholarships will provide some immediate relief for families. In the longer term, school choice will reinvigorate public school reforms. As families begin to shop for schools that work, pressure will grow for public school administrators and teachers to undertake long-delayed reforms in school operations, curriculum, and teacher training.

The second part of our education reform plan is aimed at relieving the regulatory burden faced by urban public schools. Administrators routinely complain that although the federal government provides only a fraction of overall education funding, it imposes an overwhelming majority of the paperwork. Our bill would provide an "Ed-flex" waiver for urban school districts that will permit them to devote more of their dollars and time to classroom instruction and less to filling out forms.

Opportunity Scholarships

- Uses Title VI funds in the Elementary and Secondary Education Act.
- Eligible families must have incomes at or below 185 percent of the poverty rate.
- Scholarships may be used for tuition at any private, public, or religious school located in an impoverished neighborhood.
- The state or local choice program would be means-tested.
- Scholarship value will not exceed the per pupil expenditure in the participating locality.
- The scholarship cannot be less than 60 percent of the per pupil expenditure or the cost of the private tuition, whichever is less.
- Private and religious schools that accept scholarship students would not be interfered with by the federal government.

Education Flexibility Waivers

- States may waive a variety of requirements in the local educational agency (LEA) in the state.
- Waivers of federal education regulations would be available on an expedited basis to any district that engages in a private school choice program.

R·E·A·L
renewal empowerment achievement learning for Life

The Renewal Alliance
for America's Urban Families & Communities

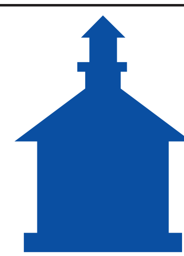
Community Renewal

- State-based Charity Tax Credit
- Charitable Donations Protection
- Liability Reform

Economic Empowerment

- 100 designated Renewal Communities
- Capital gains tax relief
- Increased expensing
- Wage credit
- Family Development Accounts
- Brownfields expansion
- Renewal Community home-ownership
- Community Reinvestment Act (CRA) Credit

Educational Opportunities for Low-Income Families



- Publicly-funded private school scholorships
- Regulatory Flexibility for public schools

Detailed Legislative Description

Community Renewal

Renewal Credit

The REAL Life Renewal Credit would permit states to use up to 50 percent of any existing federal welfare block grants to fund charity tax credits. States would be able to design their tax credit within broad federal guidelines. The program is entirely voluntary; states are not required to adopt a tax credit. If they do, they can specify the welfare-related block grants that would be affected. States would be able to provide a tax credit for contributions up to $250 ($500 for married couples) to 501(c)(3) charitable organizations, which work to prevent or reduce poverty. The credit would be phased in at $50 per year ($100 for married couples).

For example, assume that California establishes a charity tax credit funded out of Social Services Block Grant funds. Further, assume that in the first year this California charity tax credit results in California residents contributing $10 million to 501(c)(3) organizations providing poverty-reducing services to California residents. The state government would then be able to use $10 million from their Social Services Block Grant to restore the $10 million reduced state tax receipts.

Charitable Donations Protection

This section protects tithes, and charitable contributions from being recaptured by bankruptcy trustees if the donor has declared bankruptcy. Specifically, the legislation would prevent bankruptcy trustees from recapturing tithes, and monetary donations given more than one year before an individual files for bankruptcy. This provision will protect a debtor's donations to charitable organizations, including churches, for up to 15 percent of annual gross income during the year the contribution is made. Further, it will continue to protect up to 15 percent of gross income from creditors after an individual files for bankruptcy. This legislation also preserves the right of individuals to tithe, and give charitably while they repay their debts after filing bankruptcy under Chapter 13.

Charity Liability Reform

This initiative limits the civil liability of businesses that donate equipment, allow their facilities to be used (for meeting space), make motor vehicles or aircraft available to nonprofits, or offer facility tours.

Economic Empowerment

The REAL Life economic empowerment initiative would create 100 Renewal Communities with targeted, pro-growth tax benefits, regulatory relief, savings accounts, Brownfields clean-up and home ownership opportunities. Renewal Communities must meet the following requirements:

- **Poverty Rates.** A community must have a poverty rate of 20 percent or more, an unemployment rate of at least 150 percent of the national rate, and at least 70 percent of households must have incomes below 80 percent of the median household income.

- **Local Commitments.** The Renewal Communities must commit to:

  1. reduce local tax rates and fees within renewal zones, and to eliminate state and local sales taxes; and
  2. waive local and state occupational licensing regulations, and other barriers to entry, except those explicitly needed to protect health and safety.

Qualifying communities would receive the following benefits:

- **Capital Gains Tax Relief.** The bill establishes a capital gains rate of zero for the sale of any qualified zone stock, business property, or partnership interest located within the qualified zones. The stock, property, and partnership interest must have been held for at least five years.

- **Increased Expensing.** Raises the maximum allowable expensing to purchase physical plants and equipment in Renewal Communities from $25,000 to $35,000 in 2003.

- **Wage Credit.** Businesses located in qualified zones would receive a 20 percent wage credit for hiring qualified, low-income workers who remain employed for at least six months.

- **Family Development Accounts.** Family Development Accounts (FDA) are designed to encourage low-income families to save a portion of their income or their EITC credit refund. Cash donations are deductible, even if the individual does not itemize, while withdrawals are tax-free if used for a qualified purpose (purchase a home, pay tuition, cover emergency health care costs, or create a small business).

  The FDA accounts may be matched by public and private funds to help low-income families build family assets, and become independent from government programs. Matches could be provided by local churches, service organizations, corporations, foundations, and state or local governments.

- **Brownfields Expansion.** Ensures that Brownfields environmental clean-up relief applies to Renewal Communities, as well as the Enterprise Zones, Empowerment Communities, Census poverty tracks, and EPA pilot projects that were included in the Balance Budget Act of 1997.

- **Renewal Community Homeownership.** Provides for the sale of HUD-owned, unoccupied or substandard homes, and housing projects that are located within qualified zones. These properties would be sold to community development corporations to provide housing opportunities to low-income families.

- **Community Reinvestment Act (CRA) Credit.** Amends section 804 of the CRA to allow financial institutions to receive their CRA credit for investments in, or loans to, other ventures with community development financial institutions as defined by the Bank Enterprise Act of 1991, and which are located within Renewal Communities.

Education Opportunities for Low-Income Families

Opportunity Scholarships

REAL Life opportunity scholarships tap Title VI funds in the Elementary and Secondary Education Act to fund private school choice programs, primarily in hard-pressed, urban areas. Scholarships would go only to students whose families are at or below 185 percent of the poverty rate. The scholarship would be used to cover the cost of tuition at any private, public, or religious school located in the community where the child resides.

States and localities would be able to use existing funds under the Title VI “Innovation in Education” block grant of the Elementary and Secondary Education Act (ESEA), which received $310 million for FY 1997. The state or local choice program would be means-tested so that only parents with the lowest incomes would be eligible to receive scholarships for their children. The area in which a choice program would be run must be economically depressed and one of pervasive poverty.

The maximum value of the scholarship will not exceed the per pupil expenditure in that locality. The minimum amount cannot be less than 60 percent of the per pupil expenditure or the cost of the private tuition, whichever is less.

The bill states that private and religious schools that accept scholarship students would not be interfered with by the federal government.

Education Flexibility Waivers

This provision grants states the authority to waive a variety of requirements in the local educational agency (LEA) in the state. Waivers of federal regulations would be available on an expedited basis to any district that engages in a private school choice program.